Kaseya® WHITE PAPER

The MSP Growth Problem: How to Surpass Industry Expectations

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Managed Service Provider (MSP) businesses are ripe for growth; the market for managed services is expected to grow to $256 billion in 2018. With this kind of expansion predicted for the future, MSPs need to find an effective solution to manage their business to grow successfully.

Is your MSP currently positioned to be part of this industry growth? As business starts to grow and you take on new clients, you need to be prepared to scale to meet new demand. But if you "over-scale," you run the risk of wasting resources – and profit.

It's a delicate balance and one that shouldn't be approached haphazardly or without the help of the right tools and strategy to help guide you. Attempt it alone – or worse, without a plan – and you run the risk of being part of the 25 percent of professional services organizations (PSOs) that reported no growth, reduced revenue or a net loss in 2013.

Do these growth stats sound familiar? Scaling any PSO is difficult, but IT, value added resellers (VARs) and MSPs face a particularly difficult uphill battle for a number of reasons.

Here are just a few:

Inadequate Management Tools

The 2015 Annual IT Industry Outlook report found that nearly 88 percent of IT solutions providers are micro firms, comprising fewer than 10 employees. Why does this matter? Well, consider this statistic – most business management tools available to MSPs are geared toward the remaining 12 percent, the non-micro firms equipped with an abundance of financial resources. With mainly inadequate (or overly expensive) tools available to MSPs to manage their business, it can be a challenge to accurately and efficiently perform basic day-to-day tasks. Billable hours get lost in a complex time recording system. Service desk ticket systems languish because they aren't matched with the best technician based on skill. Without sufficient management tools the list of incidental damages goes on and inhibits growth.

Commoditization

There are many other technical support organizations competing for the same business—some desperate, some better than you (sorry, but no one is perfect). Even though you might be focused and proven at the technical side of the business, in today's competitive world, other MSPs are trying to compete on the only tool they think they have: price. Sure, the old adage "you get what you pay for" still rings true for some, but competition looking to drive down costs devalues what you as an MSP provide and turns what is typically a skill into a commodity.

The Race for Talent

You, combined with your team, are the collective brain trust that determines everything: on-time delivery, happy clients, smart technologies, consultative customer service, progress up the value chain, etc. As a managed services company, you need creative, smart people to differentiate your company and give you a competitive advantage. The challenge is that creative, smart people are hard to come by, making payroll your biggest expense, and keeping great talent in today's competitive job market is not an easy task.

New Business Left on the Table

Your brand promise may be anchored on growing your clients' businesses, but most small MSP firms do not excel at driving new business their own way. Why? More often than not, MSP business owners are the sole sales person in their organization, and they are tasked with operational management, sales, strategic growth and overseeing day-to-day project management. That's a lot of stuff on your to-do list – too much. How can you plan and execute your strategy when you are sucked into minutia?

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Signs of the IT Hiring Times

Many IT business owners, before engaging in the managed service business model, operate in a project-based or break-fix situation. This presents challenges for every aspect of their business, including forecasting, budgeting and yes, hiring qualified staff. Project work is not only difficult to forecast, it also makes the business owner focus on the “now,” constricting strategic thinking and planning and replacing it with tactical, day-to-day execution. In addition, project-based IT firms remain beholden to the natural ebb and flow of overall revenue and profitability, as it fluctuates significantly from month to month.

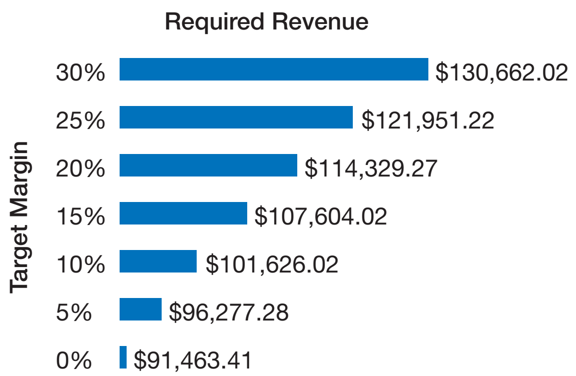
The bottom line: it‘s difficult for an IT business owner in a project-based environment to know when to hire.

Here are some helpful tips:

1. While it is difficult to make hiring decisions around the performance of any single month, business owners can feel more comfortable making personnel decisions around a longer term rolling average.
2. Intelligent hiring decisions cannot be made without an understanding of the complete financial landscape. For the majority of SMBs, payroll is the greatest operational cost. Generally speaking – assuming ordinary business and sameness in personnel – it will remain a relatively fixed percentage of overall expenses. Given that this is the case, it is a straightforward task for the IT business owner to build a model that calculates the impact of potential hiring decisions on overall margin.

Hiring Calculator

Total Payroll Cost	$75,000
Payroll % of Overall Expenses	82%
Total Monthly Expenses	**$91,463**



In this scenario, IT business owner John is considering adding a team member who will increase his total payroll liability to $75,000. Based on his average monthly expenses, John knows that this would represent about 82 percent of his total monthly costs.

John leverages this model to help assess the impact of the potential hire on his overall margin. He understands that the firm would need to be billing close to $115,000 per month in order to achieve a 20 percent margin, which is his target. When he averages out his previous three-months rolling average revenue, he calculates that his firm is billing closer to $100,000 per month. So he has a decision to make: does he sacrifice margin for

Bigger Brains = Bigger Bang

As a business owner, you can’t get out of the task management hole alone – you need quality, qualified people. But cash flow and margins are so tight, how can you afford to pay the best and the brightest? Here’s a tip: Invest in both business technology and people. You can do more with fewer people, IF – and only if – the right tools are in place to support, guide and lead your team to success.

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a period of time in order to make a hire that will help him scale his business, or would the hire negatively impact his overall profitability to a degree that he is not comfortable with?

Regardless of the decision that John makes, the model has provided him with the information to make a clear and informed decision.

The slow periods negatively impact margin, and the company is often overstaffed relative to its workload, and the busy periods negatively impact customer experience and service quality, as the firm is often understaffed to adequately service its clients' needs.

Time Tracking: Essential to an Optimized and Scalable Workforce

Now, back to John the IT business owner. He is at a loss. His team is booked to the gills; everyone seems to be working hard and sometimes working late. A couple of the team members even needed to work last weekend just to keep up. He is getting busier and busier with sending out proposals, handling client calls, and working to manage the team. There seems to be more work than ever before … so where is the money?!?

Any single employee can contribute – on average – up to 40 hours per week. But no normal human being is capable of operating at 100 percent efficiency, 100 percent of the time. In general, it's reasonable to assume that the business will get 32 hours per week (80 percent) from any given employee.

It's imperative within a business environment that production-oriented employees are contributing billable hours. If the cost of a production-oriented employee is $50,000, then the business should aim to generate somewhere between 2.5-3x that cost in revenue. The table below outlines what an effective bill rate would need to be for a $50,000 employee, assuming 80 percent of total hours are billable and productive at a target 2.75x revenue multiplier.

Annual Employee Cost	$50,000
Target Annual Revenue (2.75X)	$137,500
Total Number of Annual Hours	2,080
Total Hours Assuming 80% Productivity	1,664
Billable Rate	**$83**

This sort of model is all fine and good in theory, but terribly difficult to ensure with any sort of accuracy when put into practice. In a busy IT support environment, where pacing tends to be rapid-fire and employees are often jumping quickly between multiple projects in any single day, how can a manager keep track of the various data points required to gain the sort of operational visibility needed to know whether or not targets are being hit across any given department, client or employee?

Managers need to understand performance, and the only way that this can occur is if data exists to analyze. Ideally, employees would be logging their time against a specific task, as a part of a specific project associated with a specific client. This provides the manager with an opportunity to assess problems that might exist across any one of those dimensions (employee, task, project or client). Even more insight can be gained if the manager is assigning budgets or time estimates to the various tasks based on the overall project scope.

Tough Decisions

Do you sacrifice margin for a period of time in order to make a hire that will help you scale? Or would the hire negatively impact your overall profitability to a degree of intolerable discomfort?

The Holy Grail: Recurring Revenue

Many IT firms start out in their infancy doing "break-fix" work, basically fulfilling projects. As your firm grows, you begin to look for opportunities to change your model to the managed services business or recurring revenue retainers, as they provide a guaranteed source of forecastable revenue. Rethink your business approach, even if it seems impossible. Even at a relatively low-cost retainer basis, recurring revenue gives you a pillow in case your business takes a downturn and will, eventually, provide a solid foundation for growth.

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For example, John has just sold a server migration project at a fixed price. At a high level, his estimate looks like this:

Work Item	Strategy	Design	Implementation	Backend
Discovery	8	4		
Hardware	4	8		
Procurement		8		
Backup			20	
Build			20	
Data Migration			20	
Q/A			10	10
Launch			10	10
Total Hours	12	20	80	20
Hourly Rate	$225	$150	$150	$150
Subtotal	$2,700	$3,000	$12,000	$3,000
Total Cost	$20,700			

It would be reasonable for John to want to know:

- Am I making money, breaking even, or losing money on this project?
- Is the project being produced according to my estimates? If not, the issue will either be related to:
  - Inaccurate estimates, or
  - Employee inefficiency, or
  - Some combination thereof
- Are certain types of employees (e.g., designers) producing according to estimates whereas others (e.g., frontend developers) are not?

And so on. The list of questions that John might have related to his team's performance, and the performance of his organization overall, are many and varied. The lowest common denominator among them is that the question can only be answered if the answer is knowable. And the answer cannot be knowable if data does not exist that maps employee hours to specific tasks.

From an IT project management perspective, time tracking is really the baseline foundation for any sort of analytics whatsoever regarding employee utilization, project ROI and the margin on any given project. Time tracking enables managers to understand which employees are performing and which are not, where estimates are accurate and where they are not, and which clients are profitable and which are not.

"After all is said and done, by having a complete cohesive view of what your people are doing, how much time they have, their margin and what tasks and projects are the most profitable, you can crash through the ceiling of complexity to grow to the next level," offers Jeffrey Jewell, CEO of Jewell Computing Solutions. "The right business management solution can change your strategy and completely change your business."

Any business without this visibility is a business that cannot scale, cannot accurately assess and triage its weaknesses and ultimately cannot ensure the combination of quality, price and service that will allow it to survive long term in a competitive space. In fact, PSOs that adopt professional services automation (PSA) technology experience an average seven percent increase in billings and 24 percent improvement in net profit.

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Are You Managing the Business or is the Business Managing You?

Growth is inevitably accompanied by growing pains. Successful MSPs distinguish themselves – amongst other things – by responding to these pain points quickly and effectively. Many MSPs will face a business management challenge at a certain point in their growth arc when email and the widely adopted "free" collaboration tools (e.g., Google Drive, hosted Share-Point, MS Excel) begin to reveal themselves as inadequate when leveraged at scale.

At some stage in its growth, an IT firm will have more concurrent projects operating on tight deadlines than it can handle where:

- The firm also receives ad hoc (and often same day) requests from legacy customers or hourly retained clients.
- Current and upcoming projects require various combinations of employee technical skill sets and resources.
- Each project has a distinct and robust communication thread.
- Various points of contact are collaborating on files.
- The responsibilities of various team members are contingent and tied to the tasks associated with other team members.
- Scheduling internal and external resources across the various projects and tasks is a balancing act that requires forethought and precision to ensure timeliness.
- The combination of all of these things creates a manageability nightmare for the firm, and emails are stacking up, issues are not being resolved, quality is suffering, and details are slipping through the cracks.
- Attempting to manage projects around checkboxes and "to-dos" is about as practical as trying to build a house with a screwdriver and electrical tape.
- Company management begins to lose visibility into what is happening and who is doing what, and the operation devolves into barely orchestrated chaos.
- There are so many holes in the metaphorical ship that it seems a true miracle that the whole thing isn't totally underwater.

Or is it?

Sound familiar? The tools that were sufficient in supporting your growth from A to B are insufficient and cannot support growth in the next phase of the business lifecycle. The MSP will either move forward, backward or nosedive into the abyss of the 80 percent of failed small businesses based on its success in tackling the project management challenge.

There is a critical juncture in the lifecycle of many MSPs where attempting to keep business tasks coordinated and on-schedule via email is impossible. There is a point where common collaboration tools become woefully unsophisticated and stymie – rather than promote – growth. And, at this juncture, the successful MSP will adapt and adopt a suite of tools that fits its lifecycle stage, whereas an unsuccessful IT firm will cling to the tools and processes that it has used up to that point in time.

At this point, agencies should consider the following when selecting a platform or suite of tools that will facilitate and enable growth:

Cohesion

Leveraging multiple communication channels can fragment knowledge. MSPs and clients will be best served by aggregating all task communication into a single space.

Depth

Projects and service requests are more than to-dos and checkboxes. They involve concurrent series of interrelated and interdependent tasks and teams who perform those tasks and are oftentimes assigned to multiple concurrent projects. In addition, they involve best practice workflows for each skilled team member that encompass the individuals on each team. MSPs will be best served by adopting a tool that is built to handle the complexity of dynamic projects that depend on a team approach.

"The measure of intelligence is the ability to change."

Albert Einstein

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Time

Servicing clients and projects is intrinsically tied to beginning and end points and typically feature a multitude of tasks that connect all the points together. Time is an invaluable business asset, and maintaining control over your team's project schedule can be the difference between profit and loss in any given month. MSPs should find a business management platform that ties tasks to a time-associated schedule to ensure that management possesses a universal perspective on the status of projects at any given point in time.

BMS Can Help

Finally. A business management solution for today's MSPs. BMS by Kaseya is a next-generation business management solution that was built specifically to help MSPs spend more time selling and delivering services, and less time on non-revenue-generating tasks like billing and project management.

BMS's scalable, open, cloud-based architecture means you can:

- Define & deploy new services rapidly
- Manage client IT projects effectively
- Monitor service delivery with 360° visibility
- Maximize profitability

Start a **Free Trial** today
and see the power of BMS

ABOUT KASEYA

Kaseya® is the leading provider of complete IT management solutions for Managed Service Providers and small to midsized businesses. Kaseya allows organizations to efficiently manage and secure IT in order to drive IT service and business success. Offered as both an industry-leading cloud solution and on-premise software, Kaseya solutions empower businesses to command all of IT centrally, manage remote and distributed environments with ease, and automate across IT management functions. Kaseya solutions currently manage over 10 million endpoints worldwide and are in use by customers in a wide variety ofindustries, including retail, manufacturing, healthcare, education, government, media, technology, finance, and more. Kaseya, headquartered in Dublin, Ireland is privately held with a presence in over 20 countries. To learn more, please visit **www.kaseya.com**

Rev 092116

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